

TEXAS TRANSPORTATION COMMISSION

ALL Counties

MINUTE ORDER

Page 1 of 1

ALL Districts

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the Texas Transportation Commission (commission) to purchase, sell, and invest its funds and funds under its control in investments that are in compliance with investment policies approved by the commission.

Government Code §2256.005 requires the commission to adopt a written investment policy regarding the investment of its funds and funds under its control, including a separate written investment strategy for each of the funds or group of funds.

Government Code §2256.005(e) and Section 20.0 of the investment policy require the commission to review the investment policy and investment strategies on an annual basis, and to approve by order any modifications to the investment policy and investment strategies. The investment policy and investment strategies are attached as Exhibit A and include revisions to the broker/dealer list, training source list and other updates.

IT IS THEREFORE ORDERED by the commission that the investment policy and investment strategies applicable to all funds of the commission and funds under the commission's control not otherwise required to be invested by the comptroller, attached as Exhibit A, have been reviewed and are hereby approved in accordance with Government Code §2256.005(e) and Section 20.0 of the investment policy.

Submitted and reviewed by:

Recommended by:

DocuSigned by:

Benjamin N. Asher

E40116FC36E4474...

Director, Project Finance,
Debt and Strategic Contracts Division

DocuSigned by:

James M. Bass

A36620BA647D4BD...

Executive Director

115836 Aug 27 2020

Minute
Number

Date
Passed

EXHIBIT A



Texas Transportation Commission Investment Policy

Updated August 27, 2020

Table of Contents

1.0	POLICY.....	3
2.0	SCOPE	3
3.0	PRUDENCE.....	3
4.0	OBJECTIVES	4
5.0	DELEGATION OF AUTHORITY	4
6.0	TRAINING.....	5
7.0	INVESTMENT ADVISOR	5
8.0	ETHICS AND CONFLICTS OF INTEREST	5
9.0	REPORTING.....	6
10.0	AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS	6
11.0	SAFEKEEPING	7
12.0	DIVERSIFICATION	7
13.0	AUTHORIZED INVESTMENTS	8
14.0	AUTHORIZED AND SUITABLE INVESTMENTS.....	14
15.0	NON-AUTHORIZED INVESTMENTS.....	14
16.0	ADVISORY COMMITTEE	14
17.0	EXISTING INVESTMENTS	14
18.0	PROXY VOTING	15
19.0	COLLATERAL	15
20.0	INVESTMENT POLICY ADOPTION	15
EXHIBIT A	.....	16
	FORM OF COMMISSION INVESTMENT CERTIFICATION	16
EXHIBIT B	.....	17
	QUALIFIED BROKER/DEALERS.....	17
EXHIBIT C	.....	18
	INVESTMENT TRAINING SOURCES	18
EXHIBIT D	.....	19
	AUTHORIZED LOCAL GOVERNMENT INVESTMENT POOLS.....	19
EXHIBIT E	.....	20
	FORM OF DESIGNATION OF INVESTMENT OFFICER	20
EXHIBIT F.1	.....	21
EXHIBIT F.2	.....	27
EXHIBIT F.3	.....	34
EXHIBIT F.4	.....	36
EXHIBIT F.5	.....	42

1.0 POLICY

It is the policy of the Texas Transportation Commission (the “Commission”) to invest funds that are the subject of this Investment Policy (the “Policy”) in a manner that will preserve the principal of funds invested while meeting the daily cash flow demands of the Commission and conforming to the applicable trust indenture or agreement, supplemental indentures or agreements, resolutions, loan agreements, minute orders or other pertinent financing documents (collectively, the “Bond Documents”) related to a financing program or particular series of outstanding bonds, notes or other obligations (collectively, the “Obligations”) issued by the Commission; and conform to all statutes governing the investment of Commission funds not otherwise required by law to be invested by the Texas Comptroller of Public Accounts (the “Comptroller”) or other parties, whether held by a trustee, the Comptroller or other applicable entity under the Bond Documents including, but not limited to, the *Public Funds Investment Act*, Chapter 2256, Texas Government Code (the “Act”) and the *Public Funds Collateral Act*, Chapter 2257, Texas Government Code.

2.0 SCOPE

The Commission will endeavor to earn a return on funds invested at the optimum investment return after considering the primary goals of preservation of principal and liquidity of funds invested. A separate portfolio of investments may be created for each investment strategy (as described in Exhibits F.1 through F.5) and each portfolio will be managed in a manner consistent with the Policy and applicable strategy objectives described below. This Policy applies solely to funds of the Commission not otherwise required by law to be invested by the Comptroller or other parties, which currently include funds held by a trustee, the Comptroller or other applicable entity pursuant to the Bond Documents securing any outstanding Obligations. Funds of the Commission include bond proceeds or pledged revenue, which may be invested only to the extent permitted by the Act, in accordance with statutory provisions governing the debt issuance or the obligation under a lease, installment sale, or other agreement, as applicable, and this Policy. Pledged revenue means money pledged to the payment of or as security for: (1) bonds or other indebtedness issued by the Commission; (2) obligations under a lease, installment sale, or other agreement of the Commission; or (3) certificates of participation in a debt or obligation described by (1) or (2) above. All other funds of the Commission are invested as provided by law including, without limitation, the State Highway Fund (including the State Infrastructure Bank), general obligation bond proceeds, and any operating accounts, maintenance accounts or reserve maintenance accounts which are not subject to the provisions of the Bond Documents.

3.0 PRUDENCE

Investments shall be made with judgment and care under circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by Investment Officers shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures, this Policy, any applicable investment strategies, and exercising due diligence, shall be relieved of personal responsibility for an individual instrument’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which

the Investment Officer had responsibility rather than consideration as to the prudence of a single investment and whether the investment decision was consistent with this Policy, the applicable investment strategy and written investment procedures.

4.0 OBJECTIVES

The primary objectives of the Commission's investment activities pursuant to this Policy, in priority order shall be:

- a) Preservation and Safety of Principal: Investments of the Commission shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification along credit and maturity lines is required in order to minimize potential losses on the portfolio.
- b) Liquidity: The investment portfolios will remain sufficiently liquid to enable the Commission to meet all requisite operating requirements, which might be reasonably anticipated.
- c) Yield: The investment portfolios shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cashflow characteristics of the portfolio. It is recognized that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

5.0 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from the Act, specifically, Section 2256.005. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer and the Director, Project Finance, Debt and Strategic Contracts Division of the Texas Department of Transportation (the "Department"), who for purposes of this Policy, shall be referred to herein as the "Investment Officers". The Chief Financial Officer shall establish written procedures for the operations of the investment program consistent with this Policy and, if applicable, the provisions of the Bond Documents. Procedures should include references to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements, and banking services contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, including a system of controls to regulate the investment activities of parties holding funds pursuant to the Bond Documents, Investment Advisors and subordinate officials. The procedures shall include monitoring credit rating changes of investments held, where applicable. No person may engage in an investment transaction except as provided under the terms of this Policy, the procedures established by the Chief Financial Officer and the provisions of the Bond Documents. The Investment Officers will be responsible for all transactions undertaken under this Policy. The Chief Financial Officer is primarily responsible for the execution of investment strategy and activities on a daily basis. However, in his/her absence, the Department's Project Finance, Debt and Strategic Contracts Division Director, or a designee of any of the Investment Officers (as evidenced in a delegation memorandum, a form of which is attached hereto as Exhibit E) shall perform these duties and responsibilities.

6.0 TRAINING

To ensure qualified and capable investment management, each member of the Commission and the Investment Officers shall attend at least one training session relating to the person's responsibilities under the Act within six months after taking office or assuming duties. The Investment Officers shall attend an investment training session not less than once each state fiscal biennium and may receive training from any independent source approved by the Commission as listed in Exhibit C of the Policy.

Training to be received by the Investment Officers must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio assets, and compliance with the Act.

7.0 INVESTMENT ADVISOR

The Commission may from time to time employ qualified representatives or firms as an Investment Advisor to assist the Investment Officers in carrying out the investment program and complying with the requirements of the Act. If the Commission elects to delegate authority to an outside investment manager on any account, the investment manager must qualify under the Act and under Texas Government Code, Section 1371.154, where applicable, be a Registered Investment Advisor, and provide evidence of adequate coverage through a current "errors and omissions" policy. The investment management contract, and any extensions or renewals, may not be for a term greater than two years and must be approved by the Commission.

8.0 ETHICS AND CONFLICTS OF INTEREST

Investment Officers involved in the investment process shall refrain from personal business or investment activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment Officers involved in the investment process shall sign annual statements agreeing to abide by this section of the Policy and affirming no known conflicts of interest.

Investment Officers must file a disclosure statement with the Texas Ethics Commission and the Commission if:

- a) the Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Commission; or
- b) the Officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the Commission. An Officer involved in the investment process has a personal business relationship with a business organization if:
 - the Officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
 - funds received by the Officer from the business organization exceed 10 percent of his/her gross income for the previous year; or
 - the Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for his/her personal account.

9.0 REPORTING

The Investment Officers shall prepare and submit to each member of the Commission and the Executive Director an investment report no less frequently than quarterly. In addition to the information required by the Act, the report shall contain sufficient information to provide for a comprehensive review of investment activity, current investment instruments and performance for that period, and shall include, at a minimum:

- if funds are pooled and invested, a summary statement identifying the fund or account for which the investment was acquired and presenting the beginning and ending market value of the pool portfolio and the fully accrued interest for the reporting period;
- for each individual investment:
 - the book value at the end of the reporting period;
 - the market value at the end of the reporting period;
 - the maturity date of each investment, if applicable; and
 - the account or fund or pooled group for which it was acquired;
- a statement of intent if some or all securities are intended to be held to maturity;
- any variations from the Act, this Policy or the investment strategy of the Commission;
- any recommended amendments to current investment strategies; and
- an analysis of current market conditions.

“Weighted average yield to maturity” shall be the portfolio performance measurement standard.

Data will be available upon request, and kept on file, of all transactions to record and document all investment activity. It is recognized that there may be fluctuations in value during and in comparative reporting periods.

The investment report shall be prepared jointly and signed by all Investment Officers.

Investment reports shall be formally reviewed at least annually by an independent auditor, and the results of the review shall be reported to the Commission by that auditor.

At least once every two years, the Commission shall perform a compliance audit of management controls on investments and adherence to the established investment policies as set forth in this document. Not later than January 1 of each even-numbered year, the Commission shall report the results of the most recent compliance audit to the State Auditor. Subject to a risk assessment and to the Legislative Audit Committee’s approval of a review by the State Auditor in the audit plan, the State Auditor may review this report. If review by the State Auditor is approved by the Legislative Audit Committee, the State Auditor may, based on its review, require the Commission to also report to the State Auditor other information the State Auditor determines necessary to assess compliance with laws and policies applicable to the Commission’s investments. Such report shall be prepared in a manner the State Auditor prescribes.

10.0 AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

The Investment Officers will maintain a list of qualified business organizations authorized to engage in investment transactions, including deposits into money market funds and/or certificates of deposit. The Investment Officers may request the assistance and accept the recommendations of the Financial Advisor or Investment Advisor in establishing and maintaining such a list. Qualified business organizations shall include only banks,

broker/dealers, primary dealers, insurance companies and other financial institutions doing business in the State of Texas and who are licensed or otherwise registered and in good standing, as applicable, with the Texas State Securities Board, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, or other applicable state or national banking or insurance regulatory organizations. If otherwise acceptable, a wholly-owned subsidiary or affiliated company of such regulated financial institutions shall be deemed qualified.

At least annually, the Commission shall review, revise and adopt a list of broker/dealers authorized to engage in security transactions with the Commission. Before the settlement date of an initial investment transacted with a broker/dealer, the Investment Officers shall have received from such firm an executed Investment Certification substantially in the form attached to this Policy as Exhibit A.

The Investment Officers shall create a competitive investment environment by soliciting quotations from multiple investment providers, monitoring investment pool and mutual fund performance, and comparing banking service availability and pricing, where appropriate.

11.0 SAFEKEEPING

All securities purchased by the Commission under this Policy shall be designated as assets of the Commission, shall be conducted on a delivery-versus-payment (DVP) basis, and shall be protected through the use of a third-party custodian/safekeeping agent, which may be a trustee.

12.0 DIVERSIFICATION

It is the policy of the Commission to diversify its investment portfolios. Assets held in particular funds shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Investment Officers for all funds. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- a) Portfolio maturities shall be matched versus liabilities to avoid undue market risk.
- b) Investments selected shall provide for stability of income and liquidity as long as there is preservation and safety of principal.
- c) Disbursement dates shall be covered through maturing investments and cash equivalent instruments such as local government investment pools, financial institution deposits, and money market mutual funds designated under the Act and this Policy as eligible investments.
- d) No investment shall have a maturity in excess of the shorter of the maximum maturity permitted by the Bond Documents or limits specified by Fund Types in the applicable investment strategy.
- e) If rating requirements on authorized investments (defined in Sections 13.0 and 14.0 of this Policy) cannot be met with respect to investments being held in the portfolio, prudent action must be taken, consistent with this Policy as described in Section 17.0 and the Act, to rectify the situation.

13.0 AUTHORIZED INVESTMENTS

In accordance with authorizing federal and state laws, the Bond Documents and appropriate approved collateral provisions, the Commission may utilize the following investments for the investment of Commission funds subject to this Policy as provided in Section 2.0 of this Policy:

a) Obligations of or Guaranteed by Governmental Entities

- i. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks.
- ii. Direct obligations of the State of Texas or its agencies and instrumentalities rated as to investment quality by a nationally recognized investment firm of not less than "A".
- iii. Collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States. Such transactions shall not exceed 10 percent of the total of each investment portfolio under this Policy.
- iv. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States.
- v. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent. Such transactions shall not exceed 10 percent of the total of each investment portfolio under this Policy.
- vi. Bonds issued, assumed, or guaranteed by the State of Israel.

However, in accordance with the provisions of Section 2256.009(b), Government Code, the obligations listed in Section 15.0 of this Policy are not authorized investments under this clause (a).

b) Financial Institution Deposits, Certificates of Deposit and Share Certificates

A financial institution deposit, certificate of deposit or share certificate issued by a depository institution that has its main office or a branch office in the State of Texas, that is (1) guaranteed or insured by the FDIC or its successor; or, the National Credit Union Share Insurance Fund, or its successor or; (2) secured in accordance with Section 19.0 of the Policy are authorized investments. Additionally, a certificate of deposit may be invested through a broker that has its main office or a branch office in this state and is selected from a list of approved broker/dealers that has been approved by the Commission.

In addition to the authority to invest funds in certificates of deposit described above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this Policy:

- i. The funds are invested by the Commission through a depository institution or broker that has its main office or a branch office in the State of Texas and that is selected by the Commission;
- ii. The broker or depository institution selected by the Commission under (i) above arranges for the deposit of the funds in certificates of deposit in one or more

federally insured depository institutions, wherever located, for the account of the Commission;

- iii. The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
- iv. The Commission will appoint the depository institution selected under (i) with respect to the certificates of deposit issued for the account of the Commission or a clearing broker/dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) to act as custodian for the Commission.

Certificate of Deposit transactions shall not exceed 80 percent of the total of each investment portfolio under this Policy.

c) Repurchase Agreements

A fully collateralized repurchase agreement that (1) has a defined termination date; (2) is secured by a combination of cash and/or obligations described in 2256.009(a)(1) or 2256.013, Texas Government Code; (3) requires the securities being purchased by the Commission or cash held by the Commission to be pledged to the Commission, held in the Commission's name, and deposited at the time the investment is made with the Commission or with a third party selected and approved by the Commission; (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; and (5) collateralized in accordance with Section 19.0 of this Policy. "Repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in 2256.009(a)(1) or 2256.013, Texas Government Code, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and reverse security repurchase agreement.

The Commission may not enter into long term investment agreements or other non-DVP investment transactions with a final maturity or termination date of longer than six months with any financial institution or broker/dealer that initially has a long-term rating category of less than "A" and that doesn't have at least one long-term rating of at least "AA" by a nationally recognized investment rating firm.

Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the Commission under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement. Section 1371.059(c), Government Code, applies to the execution of a repurchase agreement by the Commission.

d) Banker's Acceptance

A bankers' acceptance that (1) has a stated maturity of 270 days or fewer from the date of its issuance; (2) will be, in accordance with its terms, liquidated in full at maturity; (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and (4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or an equivalent rating by at least one nationally recognized credit rating agency. Such transactions shall not exceed 5 percent of

the total of each investment portfolio under this Policy, and all such endorsing banks shall come only from a list of entities that are routinely monitored as to financial solvency.

e) Commercial Paper

Commercial Paper that (1) has a stated maturity of 365 days or fewer from the date of its issuance; and (2) is rated not less than “A-1” or “P-1” or an equivalent rating by at least (A) two nationally recognized credit rating agencies or (B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state. Such transactions shall not exceed 15 percent of the total of each investment portfolio under this Policy with no more than 5 percent in any one name.

f) Mutual Funds

- i. A no-load money market mutual fund that (A) is registered with and regulated by the Securities and Exchange Commission; (B) provides the Commission with a prospectus and other information required by the *Securities Exchange Act of 1934* or the *Investment Company Act of 1940*; (C) complies with federal Securities and Exchange Commission rule 2a-7 (17 C.F.R Section 270.2a-7), promulgated under the *Investment Company Act of 1940* (15 U.S.A. Section 80a-1 et seq.); and
- ii. A no-load mutual fund that (A) is registered with the Securities and Exchange Commission; (B) has an average weighted maturity of less than two years; (C) and has a duration of one year or more and is invested exclusively in obligations described in this Section 13.0 of this Policy.

The Commission is not authorized to (1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Section 13.0(f)(ii) above; (2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Section 13.0(f)(ii) above; or (3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Section 13.0(f)(i) or (ii) above in an amount that exceeds 10 percent of the total assets of the mutual fund.

g) Investment Pools

The Commission may invest its funds and funds under its control through an eligible investment pool if the Commission by official action authorizes investment in the particular pool. The Commission authorizes the investment pools named in Exhibit D. An eligible investment pool must invest the funds it receives from the Commission in authorized investments permitted by the Act. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with the Act and the investment policies and objectives adopted by the investment pool. The Commission may invest its funds through an eligible investment pool if the pool provides to the Investment Officers an offering circular or other similar disclosure document that contains, at a minimum, the following information:

- the types of investments in which money is allowed to be invested;
- the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- the maximum stated maturity date of any investment security within the portfolio;
- the objectives of the pool;

- the size of the pool;
- the names of the members of the advisory board of the pool and the dates their terms expire;
- the custodian bank that will safekeep the pool's assets;
- whether the intent of the pool is to maintain a net asset value of \$1 and the risk of market price fluctuation;
- whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- the name and address of the independent auditor of the pool;
- the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool;
- the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and
- the pool's policy regarding holding deposits in cash.

If the investment pool operates an internet website, the information in a disclosure instrument or reports described above must be posted on the website.

To maintain eligibility to receive funds from and invest funds on behalf of the Commission under the Act, an investment pool must make available to the Commission an annual audited financial statement of the investment pool in which the Commission has funds invested.

If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

To maintain eligibility to receive funds from and invest funds on behalf of the Commission, an investment pool must be continuously rated no lower than "AAA" or "AAAm" or at an equivalent rating of at least one nationally recognized rating service and must furnish to the Investment Officers:

- Investment transaction confirmations;
- A monthly report that contains, at a minimum, the following information:
 - the types and percentage breakdown of securities in which the pool has invested;
 - the current average dollar-weighted maturity, based on the stated maturity date of the pool;
 - the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - the size of the pool;
 - the number of participants in the pool;
 - the custodian bank that is safekeeping the assets of the pool;
 - a listing of daily transaction activity of the Commission;
 - the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
 - the portfolio managers of the pool; and

- any changes or addenda to the offering circular.

The Commission by contract may delegate to an investment pool to hold legal title as custodian of investments purchased with its funds.

For purposes of investment in an investment pool for which a \$1.00 net asset value is maintained, “yield” shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the *Investment Company Act of 1940*, as promulgated from time to time by the federal Securities and Exchange Commission.

To be eligible to receive funds from and invest funds on behalf of the Commission, a public funds investment pool that uses amortized cost or fair value accounting must mark its portfolio to market daily, and, if the investment pool uses amortized cost, the investment pool must, to the extent reasonably possible, stabilize at a \$1.00 net asset value, when rounded and expressed to two decimal places. The governing body of the investment pool must, if the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005. The investment pool must, in addition to the requirements of its investment policy and any other forms of reporting, report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

To be eligible to receive funds from and invest funds on behalf of the Commission, a public funds investment pool must have an advisory board composed:

- Equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791, Government Code, and managed by a state agency; or
- Of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

h) Guaranteed Investment Contracts

The Commission may invest its bond proceeds in a guaranteed investment contract if the guaranteed investment contract: (1) has a defined termination date, (2) is secured by obligations described in 13.0(a)(i) above, but excluding those securities listed in Section 15.0 of this Policy, in an amount at least equal to the amount of bond proceeds invested under the contract, and (3) is pledged to the Commission and deposited with the Commission or with a third party selected and approved by the Commission. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term of longer than 5 years from the date of issuance of the bonds.

The Commission may not enter into long term investment agreements or other non-DVP investment transactions with a final maturity or termination date of longer than six months with any broker/dealer or financial institution that initially has a long-term rating category of less than “A” and that does not have at least one long-term rating of at least “AA” by a nationally recognized investment rating firm.

To be eligible as an authorized investment:

- the Commission must specifically authorize guaranteed investment contracts as an eligible investment in the documents authorizing the bonds;
- the Commission must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
- the Commission must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- the price of the guaranteed investment contract must consider the reasonably expected drawdown schedule for the bond proceeds to be invested; and
- the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

i) Forward Purchase Contracts

The Commission may invest in forward purchase agreements which provide the purchase of short-term securities at specified intervals at a predetermined price on a DVP basis.

The Commission may invest bond proceeds in a forward purchase agreement if:

- the Commission specifically authorizes forward purchase agreements as an eligible investment in the Bond Documents;
- the Commission receives bids from at least three separate providers;
- the Commission purchases the highest yielding agreement for which a qualifying bid is received;
- the price of the forward purchase agreements must consider the reasonably expected drawdown schedule for the bond proceeds to be invested;
- the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the forward purchase agreements;
- the agreement has a defined termination date;
- the obligations delivered under the agreement are limited to those securities described in Sections 13.0(a)(i), 13.0(a)(ii) or 13.0(e) of this Policy but excluding those securities listed in Section 15.0 of this Policy; and
- the obligations are delivered to the Commission or with a third party selected and approved by the Commission, or a trustee.

The term of any forward purchase agreement will comply in all respects with the limits described in the applicable investment strategy for each fund type.

j) Securities Lending Program

The Commission may invest in a securities lending program provided the program meets the following conditions:

- the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;
- a loan made under the program must allow for termination at any time;
- a loan made under the program must be secured by (1) the pledged securities described in clause 13.0(a); (2) pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and continuously rated by at least one nationally recognized investment rating firm at not less than “A” or its equivalent; or (3) cash invested in the securities described in Section 13.0(a), 13.0(e), 13.0(f), or 13.0(g).

- the terms of a loan made under the program must require that the securities being held as collateral be pledged to the Commission, be held in the Commission's name, and be deposited at the time the investment is made with a third party selected and approved by the Commission;
- a loan made under the program must be placed through a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003, or a financial institution doing business in Texas; and
- an agreement to lend securities must have a term of one year or less.

14.0 AUTHORIZED AND SUITABLE INVESTMENTS

Bond proceeds may be invested in accordance with the provisions of the Bond Documents. To the extent of any inconsistency between the provisions of this Policy and the Bond Documents, the investment terms contained in the Bond Documents shall control; provided, however, that no such investment of bond proceeds shall be made in the non-authorized investments described in Section 15.0 of this Policy.

15.0 NON-AUTHORIZED INVESTMENTS

The following are not authorized investments under this Policy:

- obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only bond);
- obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only bond);
- collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters);
- notwithstanding any language in this policy to the contrary, bond proceeds may not be invested in no-load mutual funds described in Section 13.0(f)(ii) of this Policy; and
- investments of any type which are denominated in a foreign currency.

16.0 ADVISORY COMMITTEE

Upon the recommendation of the Chief Financial Officer, the Commission may establish an investment advisory committee to give advice to the Investment Officers on matters described in Section 10.0 of this Policy.

17.0 EXISTING INVESTMENTS

Not less than quarterly, the Investment Officers will obtain, from a reliable source, the current credit rating for each investment that has a Public Fund Investment Act required minimum rating. In the event that the credit rating of any investment is publicly placed under review by the credit rating agency maintaining the rating, the Investment Officers shall closely monitor the investment and take such action as they deem prudent to protect the value of the investment.

Except as provided by Chapter 2270, Government Code, investments held on the effective date of this Policy that are no longer authorized investments under the Act and this Policy do not need to be liquidated before the final stated maturity of the investment. The Investment Officers shall take all prudent measures that are consistent with this Policy to liquidate any investment that becomes a non-authorized investment, e.g., through a rating downgrade, after the purchase of such investment.

18.0 PROXY VOTING

The Investment Officers shall execute and deliver any proxies to be voted on behalf of the Commission based upon his or her judgment, as a prudent investor, as to the outcome of the voting that would be most beneficial to the Commission.

To allow mutual fund managers to use their best professional judgment in meeting their fund's objectives, the Commission will generally support each fund's management in connection with required proxy votes, except those referendums which seek to raise fees or alter the fundamental investment objective of the fund. In those cases, the Commission will generally vote negatively unless there is a clear justification on the basis of its benefit to the shareholders, and that such approval is consistent with the aims and purposes for which the fund was selected under the investment strategy. The investment fund managers will vote proxies for companies in their fund.

19.0 COLLATERAL

Each investment containing collateralization provisions must comply with the *Texas Public Funds Collateral Act*. Consistent with the requirements of the *Texas Public Funds Collateral Act*, it is the policy of the Commission to require full collateralization of all Commission's funds on deposit with a depository bank. In order to anticipate market change and provide a level of security for all funds, the collateralization level will be 102 percent of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC at its discretion, the Commission may reject or require a higher level of collateralization for certain pledged securities. Securities pledged as collateral shall be held by an independent third party with whom the Commission has a current custodial agreement. The Investment Officers are responsible for entering into collateralization agreements with an independent third-party custodian in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Commission and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

20.0 INVESTMENT POLICY ADOPTION

This Policy has been adopted by minute order of the Commission. The Commission will adopt investment strategies for each financing program as appropriate. This Policy and each current investment strategy shall be reviewed on an annual basis by the Commission. Any modifications to the Policy and investment strategies must be approved by the Commission.

EXHIBIT A

FORM OF COMMISSION INVESTMENT CERTIFICATION

This acknowledgment and certification is executed on behalf of _____ (the "Business Organization") pursuant to the Investment Policy (the "Investment Policy") of the Texas Transportation Commission (the "Commission") in connection with investment transactions between the Commission and the Business Organization.

Representations by Business Organization

The undersigned Representative of the Business Organization hereby acknowledges and represents that:

- 1) The Representative is an authorized officer of the Business Organization.
- 2) The Business Organization has received and reviewed the Investment Policy of the Commission and the Business Organization has determined that it is a qualified Business Organization under the Investment Policy.
- 3) The Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions with the Commission that are not authorized under the Investment Policy, except to the extent that this authorization:
 - A) is dependent on an analysis of the makeup of the Commission's entire portfolio;
 - B) requires an interpretation of subjective investment standards; or
 - C) relates to investment transactions of the Commission that are not made through accounts or other contractual arrangements over which the Business Organization has accepted discretionary investment authority.

Signature

Name (Printed)

Title

EXHIBIT B

QUALIFIED BROKER/DEALERS

The following Broker/Dealers are authorized to engage in investment transactions with the Commission:

American Veterans Group, PBC (H)	Mizuho Securities USA LLC
Barclays Capital Inc.	Morgan Stanley
Bley Investment Group (H)	Piper Sandler & Co.
BNY Mellon Capital Markets, LLC	PNC Capital Markets LLC
BofA Securities, Inc.	Raymond James
Cabrera Capital Markets, LLC (H)	RBC Capital Markets, LLC
Cantor Fitzgerald & Co.	Robert W. Baird & Co., Inc.
Citigroup Global Markets Inc.	SAMCO Capital Markets, Inc.
Drexel Hamilton, LLC (H)	Siebert Williams Shank & Co., LLC (H)
Fidelity Brokerage Services LLC	Stephens
Frost Brokerage Services, Inc.	Stifel Nicolaus & Co., Inc.
Hilltop Securities Inc.	TD Securities LLC
Huntington Securities Inc.	UBS Securities LLC
Jefferies LLC	UMB Financial Services, Inc.
Loop Capital Markets LLC (H)	US Bancorp
Mischler Financial Group, Inc. (H)	Wells Fargo Securities, LLC

(H) Denotes Historically Underutilized Business

EXHIBIT C

INVESTMENT TRAINING SOURCES

The following training sources are authorized providers for providing training to Investment Officers necessary to meet the requirements of this Policy and the Public Funds Investment Act:

Government Finance Officers Association

Government Finance Officers Association of Texas

Government Treasurers Organization of Texas

Public Financial Management, Inc.

Texas Higher Education Coordinating Board

Texas Municipal League

Texas State University – San Marcos

TexPool Academy

University of North Texas – Center for Public Management

EXHIBIT D

AUTHORIZED LOCAL GOVERNMENT INVESTMENT POOLS

The Commission may invest its funds and funds through an eligible investment pool, as described in Section 2256.016 of the Act, if the Commission by official action authorizes investment in the pool. The Commission authorizes the investment pools listed below so long as they maintain eligibility under the Act.

LOGIC

Lone Star Government Overnight

Lone Star Corporate Overnight

Lone Star Corporate Overnight Plus

Texas CLASS

Texas CLASS Government

Texas Term

Texas Treasury Safekeeping Trust Company

TexPool

TexPool Prime

TexStar

EXHIBIT E

FORM OF DESIGNATION OF INVESTMENT OFFICER

To: [Name/s of Qualified Business Organization/s]

From: [Name, Chief Financial Officer] [or]
[Name, Director, Project Finance, Debt & Strategic Contracts Division]

Subject: Authorization and Designation of Investment Officer

Pursuant to Government Code, Chapter 2256 (Public Funds Investment Act) and the investment policy of the Texas Transportation Commission (the "Commission") dated August 27, 2020 (the "Investment Policy"), this memorandum is intended to serve as evidence of authority of the person(s) named below to act as investment officer for the purpose of conducting and executing investment transactions on behalf of the Commission and the Texas Department of Transportation (the "Department").

As authorized by Section 5.0 of the Investment Policy, the undersigned hereby designates and authorizes:

[Name of Department Employee] _____

[Title of Named Employee]

Signature of [Named Employee] _____

to serve as an investment officer and is authorized to initiate and execute investment transactions on behalf of the Commission and the Department in accordance with the Public Funds Investment Act and the Investment Policy.

[Name, Chief Financial Officer] [or]

[Name, Director, Project Finance, Debt & Strategic Contracts Division]

EXHIBIT F.1

INVESTMENT STRATEGY
for the
Central Texas Turnpike System Revenue Obligations

PREFACE

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investments, all funds subject to a trust indenture, additional supplemental agreements thereto or indentures adopted in lieu thereof (collectively, the "Trust Indenture") securing obligations issued pursuant to such Trust Indenture for the Commission's Central Texas Turnpike System and any other agreements or minute orders of the Commission modifying or restricting the investment authority of such Trust Indenture (collectively, the "related agreements"), shall be invested in conformance with state and federal regulations, the Trust Indenture or the requirements of the related agreements, the adopted Investment Policy and this investment strategy.

INVESTMENT STRATEGY STATEMENT

In accordance with the Public Funds Investment Act, Commission investment strategies shall address the following priorities (in order of importance):

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield.

Effective investment strategy development coordinates the primary objectives of the Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy and the Trust Indenture.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. Funds held under the Trust Indenture shall be analyzed and invested according to the following major fund types:

<u>Type I Funds:</u>	Revenue Fund, General Reserve Fund and Debt Service Funds, other than Capitalized Interest funds
<u>Type II Funds:</u>	Rate Stabilization Fund
<u>Type III Funds:</u>	Construction Fund and Capitalized Interest Funds
<u>Type IV Funds:</u>	Debt Service Reserve Funds
<u>Type V Funds:</u>	Rebate Account

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate and market fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

a. Type I Funds: Revenue Fund, General Reserve Fund and Debt Service Fund (excluding Capitalized Interest Funds)

Suitability - Any investment eligible in the Investment Policy is suitable for Type I Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy’s maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

b. Type II Funds: Rate Stabilization Fund

Suitability - Any investment eligible in the Investment Policy is suitable for the Type II Funds. Bond document constraints and insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The allowable maximum maturity is 5 years.

Liquidity - Type II Funds may be expended for debt service payments, maintenance, and/or operation expenses. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type II Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.

c. Type III Funds: Construction Fund and Capitalized Interest Fund

Suitability - Any investment eligible in the Investment Policy is suitable for investment of Type III Funds. Bond document constraints and insurance company restrictions may create bond issue-specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type III Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type III Funds may not exceed the final draw date for capitalized interest payments or estimated construction draws, or five years, whichever is shorter.

Liquidity - Type III Funds have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type III Funds that do not have an arbitrage yield, attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction and Capitalized Interest Fund portfolio will be the minimum yield objective for performance. For Type III Funds that have an arbitrage yield, achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective.

d. Type IV Funds: Debt Service Reserve Fund

Suitability - Any investment eligible in the Investment Policy is suitable for the Type IV Funds. Bond document constraints and bond insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the Type IV Fund's portfolio maturities should be managed to reduce the investment's market risk if the Commission's bonds are called and the reserve fund liquidated. In no case shall any investment maturity exceed the lesser of final maturity of the bond issue or 20 years. Annual mark-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type IV Funds have no anticipated expenditures of principal. The funds are deposited to provide debt service payment protection to the Commission's bondholders. The funds are "returned" to the Commission at the final debt service payment or earlier if the amount of debt service reserve requirement decreases, often a result of bonds being defeased or redeemed. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

e. Type V Funds: Rebate Account

Suitability - Any investment eligible in the Investment Policy, except Guaranteed Investment Contracts and Forward Purchase Contracts, is suitable for Type V Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type V Fund's portfolio to match rebate payment date requirements as prescribed by federal tax law. The maximum allowable maturity of investments for Type V Funds may not exceed the date on which rebate requirements are due.

Liquidity - Type V Funds have a predictable draw schedule and will not be expended prior to the rebate payment date for each applicable series of obligations. Therefore, investments for this fund type do not need a high level of liquidity.

Marketability - Securities with secondary markets less active and efficient are acceptable for Type V Funds.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type V Funds. At no time shall investment maturities exceed the rebate payment date in an attempt to boost yield.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Rebate Account Fund portfolio will be the benchmark for performance.

EXHIBIT F.2

INVESTMENT STRATEGY
for the
Texas Mobility Fund Revenue Financing Program

PREFACE

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investments, all funds deposited into the Texas Mobility Fund (the "TMF") subject to a master resolution, additional supplemental resolutions thereto or indenture adopted in lieu thereof (collectively, the "Master Resolution") securing obligations issued pursuant to such Master Resolution for the Commission's Mobility Fund Revenue Financing Program and any other administrative agreements, investment agreements or minute orders of the Commission modifying or restricting the investment authority of such Master Resolution (collectively, the "related agreements") shall be invested in conformance with state and federal regulations, the Master Resolution or the requirements of the related agreements, adopted Investment Policy and this investment strategy.

A list of permitted investments is included as Schedule I to this investment strategy. This investment strategy applies to all revenues pledged and deposited in the TMF, including the Pledged Revenues and the proceeds of any obligations issued under the Master Resolution relating to the Mobility Fund Revenue Financing Program.

INVESTMENT STRATEGY STATEMENT

In accordance with the Public Funds Investment Act, Commission investment strategies shall address the following priorities (in order of importance):

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield.

Effective investment strategy development coordinates the primary objectives of the Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated TMF cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy and the Master Resolution.

Accounts held by the Comptroller under the Master Resolution shall be analyzed and invested according to the following major fund types:

- Type I Funds: General Account and the Interest and Sinking Accounts
- Type II Funds: Bond Proceeds Accounts
- Type III Funds: Debt Service Reserve Accounts, if any
- Type IV Funds: Rebate Accounts

The Commission reserves the right to establish additional funds and accounts under the Master Resolution and as appropriate. This Strategy may be amended to properly address the investment characteristics of such additional funds and accounts.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements.

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate and market fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

a. Type I Funds: General Account and Interest and Sinking Accounts

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024, Texas Government Code is suitable for Type I Funds (see Schedule I).

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities. As market price fluctuations occur, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days, and restricting the maximum allowable maturity to one year.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types and will be expended for debt service payments or other qualified expenditures. Short-term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated expenditures from the fund. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

b. Type II Funds: Bond Proceeds Accounts

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024, Texas Government Code is suitable for the Type II Funds (see Schedule I). supplemental resolution constraints and restrictions imposed by insurance providers may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations may occur, however, the market risk of the overall portfolio will be minimized by managing the Type II Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type II Funds may not exceed the estimated final draw date.

Liquidity - Type II Funds may have reasonably predictable cashflow schedules. Therefore, investment maturities shall generally follow the anticipated cashflow requirements. Investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cashflow needs, or a competitive yield alternative for short-term fixed

maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - Securities with active and efficient secondary markets, including securities less active than securities purchased with Type I Funds, are acceptable for Type II Funds and are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield. Adhering to the Investment Policy's maximum investment type limits shall restrict the exposure of the fund to any one market sector.

Yield - Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective.

c. Type III Funds: Debt Service Reserve Accounts (if any)

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024, Texas Government Code is suitable for the Type III Funds (see Schedule I). Supplemental resolution constraints and restrictions imposed by insurance providers may create bond issue-specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities. Market price fluctuations will occur, therefore Type III Fund portfolio maturities should be managed to reduce market risk in the event the debt service reserve amount decreases or is eliminated and the reserve fund liquidated. In no case shall any investment maturity exceed the lesser of final maturity of the bond issue or 20 years. Annual mark-to-market requirements or specific maturity and average life limitations within the resolutions will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type III Funds have no anticipated expenditures of principal. Funds are deposited to provide debt service payment protection to the Commission's bondholders. The funds are "returned" to the Commission at the final debt service payment or earlier if the amount of the debt service reserve decreases often resulting from bonds being defeased or redeemed. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with secondary markets less active and efficient than those required for Type I and Type II Funds are acceptable for Type III Funds. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Achieving a positive spread to the applicable arbitrage yield is the desired objective.

d. Type Fund IV Funds: Rebate Accounts

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024, Texas Government Code is suitable for the Type IV Funds (see Schedule I).

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities. Market price fluctuations may occur, however, the market risk of the overall portfolio will be minimized by managing the Type IV Fund's portfolio to match rebate payment date requirements as prescribed by federal tax law. The maximum allowable maturity of investments for Type IV Funds may not exceed the date on which rebate requirements are due.

Liquidity - Type IV Funds have a predictable draw schedule and will not be expended prior to the rebate payment date for each applicable series of obligations. Therefore, investments for this fund type do not need a high level of liquidity.

Marketability - Securities with secondary markets less active and efficient than those required for Type I and Type II Funds, are acceptable for Type IV Funds.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the rebate payment date of the applicable bond issue in an attempt to increase yield.

Yield - Attaining a competitive market yield for comparable security types and portfolio restrictions is the desired objective.

SCHEDULE I
TEXAS MOBILITY FUND PERMITTED INVESTMENTS

- i. Direct obligations of the United States or its agencies and instrumentalities (including senior debt obligations of GNMA, FNMA or FHLMC);
- ii. Direct obligations of the State or its agencies and instrumentalities rated as to investment quality by a nationally recognized investment firm of not less than “A”;
- iii. Collateralized mortgage obligations that have a stated maturity of 10 years or less directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States (such transactions not to exceed 10 percent of the total of each investment portfolio under the Investment Policy);
- iv. Other obligations, the principal and interest of which are unconditionally guaranteed by the State or the United States or their respective agencies and instrumentalities;
- v. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent (such transactions not to exceed 10 percent of the total of each investment portfolio under the Investment Policy);
- vi. Certificates of deposit issued by a state or national bank designated as a State depository that are (a) guaranteed or insured by the FDIC or the National Credit Union Administration or their successors; (b) secured by obligations described in clauses (i) through (v) above; or (c) secured in any other manner and amount provided by law for deposits of the Commission. Investment in certificates of deposit may not exceed 20 percent of the total investment portfolio.
- vii. A fully collateralized repurchase agreement that has a defined termination date, is secured by obligations described in (i) through (v) above; requires such collateral levels to be at least 104 percent of the principal and accrued but unpaid interest obligations under the agreement when the collateral type is U.S. Treasury Obligations or Obligations of GNMA and such collateral levels to be at least 105 percent of the principal and accrued but unpaid interest obligations under the Agreement when the collateral type is Obligations of FNMA or FHLMC; requires the securities purchased by the Commission to be pledged to the Commission, held in the Commission’s name, and deposited at the time the investment is made with the Commission or with a third party selected and/or approved by the Commission; requires the securities purchased by the Commission to be segregated and marked-to-market at least weekly with any deficiency in collateral level being cured within two (2) business days; and is placed through a primary government securities dealer or financial institutions doing business in the State (such entity or its parent must be rated in the “A” category, without regard to gradation or numerical modifier, by at least two nationally recognized rating agencies);
- viii. Certain bankers acceptances with a stated maturity of 270 days or fewer from the date of issuance, if liquidated in full at maturity, eligible for collateral for borrowing from a Federal Reserve Bank, and accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank are rated not less than “A-1” or “P-1” or an equivalent rating by at least one nationally recognized credit rating agency (such transactions not to exceed 5 percent of the Commission’s total investment portfolio under the Investment Policy);

- ix. Commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1,” or the equivalent, by at least (a) two nationally recognized rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state;
- x. With certain restrictions, a no-load money market mutual fund that is registered with and regulated by the SEC and (a) provides the Commission with a prospectus and other information required by the *Securities Exchange Act of 1934* or the *Investment Company Act of 1940*, complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); or (b) has an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations permitted for investment under the Investment Policy (and described herein) or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities;
- xi. Bonds issued, assumed, or guaranteed by the State of Israel;
- xii. Certain securities lending programs; and
- xiii. An eligible investment pool that is established by the Texas Treasury Safekeeping Trust Company and invests solely in such obligations authorized under State law provided that the pool is rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service, operates like a mutual fund, has a portfolio consisting only of dollar denominated securities, and operates under a qualified advisory board.

EXHIBIT F.3

INVESTMENT STRATEGY for the accounts under the Master Lockbox and Custodial Account Agreement

PREFACE

It is the policy of the Texas Transportation Commission (the “Commission”) that, giving due regard to the safety and risk of investment, all funds and accounts (the “Custodial Accounts”) subject to the Master Lockbox and Custodial Account Agreement by and between the Bank of New York Trust Company, N.A., as Custodian and the Texas Department of Transportation, dated as of November 9, 2007, as amended (the “Master Lockbox and Custodial Account Agreement”) shall be invested in conformance with Section 8.05 of the Master Lockbox and Custodial Account Agreement, the adopted Investment Policy and this investment strategy.

The Master Lockbox and Custodial Account Agreement provides for lockbox accounts and custodial accounts. This investment strategy applies to the accounts identified under the Master Lockbox and Custodial Account Agreement as a custodial account (the “Custodial Account”).

INVESTMENT STRATEGY

- Up to 100 percent of Custodial Accounts may be invested in authorized investments with maturities of less than one year.
- Up to 20 percent of Custodial Accounts can be invested in authorized investments with a final maturity not to exceed two years from date of purchase.
- The maximum weighted average maturity for the investments may not exceed 240 days at any time.

AUTHORIZED INVESTMENTS

- U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- Federal Agency or U.S. government sponsored enterprises (GSE) obligations, participations or other instruments.
- Securities and Exchange Commission registered money market funds.

EXHIBIT F.4

INVESTMENT STRATEGY

for the

I-35E Managed Lanes Project Toll Revenue Obligations

PREFACE

It is the policy of the Texas Transportation Commission (the “Commission”) that, giving due regard to the safety and risk of investments, all funds subject to a trust agreement, and any additional supplemental agreements thereto or indentures adopted in lieu thereof (collectively, the “Trust Agreement”) securing obligations issued pursuant to such Trust Agreement for the Commission’s I-35E Managed Lanes Project and any other financing agreements, loan agreements or minute orders of the Commission modifying or restricting the investment authority of such Trust Agreement (collectively, “related agreements”), shall be invested in conformance with state and federal regulations, the Trust Agreement or the requirements of the related agreements, the adopted Investment Policy and this investment strategy.

PERMITTED INVESTMENTS

In addition to the restrictions set forth for Authorized Investments in Section 13.0 of the Commission’s Investment Policy, all funds subject to the I-35E Trust Agreement will be further restricted to the following Permitted Investments as defined in the Trust Agreement and so long as the TIFIA Loan Agreement is outstanding.

- i. Government Obligations;
- ii. Certificates of deposit where the certificates are collaterally secured by securities of the type described in Section 13.0(a) and held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, but this collateral is not required to the extent the certificates of deposit are insured by an agency of the Government;
- iii. Repurchase agreements, when collateralized by securities of the type described in described in 2256.009(a)(1) or 2256.013, Texas Government Code; and held by a third party as escrow agent or custodian, of a market value not less than the amount of the repurchase agreement so collateralized, including interest;
- iv. Investment agreements or guaranteed investment contracts rated, or with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in one of the two highest rating categories for comparable types of obligations by any Nationally Recognized Rating Agency;
- v. Money market funds that invest solely in obligations of the United States, its agencies and instrumentalities, and having a rating by a Nationally Recognized Rating Agency equal to the then applicable rating of the United States of America by such Nationally Recognized Rating Agency;
- vi. Public funds investment pools, as described by Section 2256.016, Texas Government Code, and continuously rated no lower than “AAA” or “AAAm” or an equivalent rating by at least one Nationally Recognized Rating Agency or as otherwise provided by Section 2256.019, Texas Government Code; and
- vii. Such other Authorized Investments that may be permitted from time to time by the TIFIA Loan Agreement.

INVESTMENT STRATEGY STATEMENT

In accordance with the Act, Commission investment strategies shall address the following priorities (in order of importance):

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield

Effective investment strategy development coordinates the primary objectives of the Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy, the Trust Agreement and the TIFIA Loan Agreement.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. Funds held under the Trust Agreement shall be analyzed and invested according to the following major fund types:

<u>Type I Funds:</u>	Revenue Fund, O&M Fund, Major Maintenance Fund, and Debt Service Funds
<u>Type II Funds:</u>	Rate Stabilization Fund and General Fund including the General Account and TIFIA Prepayment Account
<u>Type III Funds:</u>	Construction Fund
<u>Type IV Funds:</u>	Debt Service Reserve Funds (including the TIFIA Reserve Fund)

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate and market fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

a. Type I Funds: Revenue Fund, O&M Fund, Major Maintenance Fund and Debt Service Funds

Suitability - Any investment eligible in the Trust Agreement and TIFIA Loan Agreement is suitable for Type I Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

b. Type II Funds: Rate Stabilization Fund and General Fund including the General Account and TIFIA Prepayment Account

Suitability - Any investment eligible in the Investment Policy, subject to limitations in the Trust Agreement and TIFIA Loan Agreement while outstanding, is suitable for the Type II Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Investments must have a maturity not exceeding five years except that Permitted Investments listed in subsections (iii) and (iv) above may have a nominal maturity longer than five years so long as such investments may be drawn when needed under the Trust Agreement without penalty or payment of breakage.

Liquidity - Type II Funds need little liquidity but may be expended for debt service payments, maintenance, and/or operation expenses to the extent revenues and deposits are insufficient. Market conditions determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type II Funds.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. At no time shall investment maturities exceed the final debt service payment date in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.

c. Type III Funds: Construction Fund

Suitability - Any investment eligible in the Investment Policy, subject to limitations in the Trust Agreement and TIFIA Loan Agreement while outstanding, is suitable for investment of Type III Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type III Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type III Funds may not exceed the final draw date for estimated construction draws. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield.

Liquidity - Type III Funds have reasonably predictable draw schedules. Therefore, investment maturities shall generally follow the anticipated cashflow requirements. Short-term financial institution deposits, investment pools and money market mutual funds provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type III Funds, attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction Fund portfolio will be the minimum yield objective for performance.

d. Type IV Funds: Debt Service Reserve Funds including the TIFIA Reserve Fund

Suitability - Any investment eligible in the Investment Policy, subject to limitations of the Trust Agreement and TIFIA Loan Agreement while outstanding, is suitable for the Type IV Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the Type IV Fund's portfolio maturities should be managed to reduce the investment's market risk if the Commission reduces or retires the outstanding Obligations and the debt service reserve fund is reduced or liquidated. Prior to the debt service commencement date the Permitted Investments must mature or be subject to redemption not later than the debt service commencement date, and after the debt service commencement date Permitted Investments in the Debt Service Reserve Account may not exceed one year. ; Annual market-to-market requirements or specific maturity and average life limitations within the Trust Agreement and TIFIA Loan Agreement will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type IV Funds have no anticipated expenditures of principal. The funds are deposited to provide debt service payment protection to the Commission's lender. The funds are "returned" to the Commission at the final debt service payment or earlier if the Obligations are defeased or redeemed. Market conditions determine the advantage of security diversification and liquidity.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification – Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the final debt service payment date of the Obligations in an attempt to increase yield.

Yield – Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

EXHIBIT F.5

INVESTMENT STRATEGY for the SH 249 System Toll Revenue Obligations

PREFACE

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investments, all funds subject to a master trust agreement, additional supplemental agreements thereto or indentures adopted in lieu thereof (collectively, the "Master Trust Agreement") securing obligations of the Commission's State Highway 249 System and any other agreements or minute orders of the Commission modifying or restricting the investment authority of such Master Trust Agreement (collectively, the "related agreements"), shall be invested in conformance with state and federal regulations, the Master Trust Agreement or the requirements of the related agreements, adopted Investment Policy and this investment strategy.

INVESTMENT STRATEGY STATEMENT

In accordance with the Public Funds Investment Act, Commission investment strategies shall address the following priorities (in order of importance):

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield.

Effective investment strategy development coordinates the primary objectives of the Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy and the Trust Agreement.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. Funds held under the Trust Agreement shall be analyzed and invested according to the following major fund types:

<u>Type I Funds:</u>	Revenue Fund, Debt Service Fund, and General Reserve Fund
<u>Type II Funds:</u>	Rate Stabilization Fund
<u>Type III Funds:</u>	Construction Fund and Capitalized Interest Fund
<u>Type IV Funds:</u>	Debt Service Reserve Fund
<u>Type V Funds:</u>	Rebate Fund

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate and market fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

- a. **Type I Funds: Revenue Fund, Debt Service Fund, and General Reserve Fund (excluding Capitalized Interest Funds)**

Suitability - Any investment eligible in the Investment Policy is suitable for the Type I Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year. The General Reserve Fund has a maximum allowable maturity of five years.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cashflow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy’s maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

b. Type II Funds: Rate Stabilization Fund

Suitability - Any investment eligible in the Investment Policy is suitable for the Type II Funds. Bond document constraints and insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The allowable maximum maturity is 5 years.

Liquidity - Type II Funds may be expended if needed for debt service payments, maintenance, and/or operation expenses. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type II Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.

c. Type III Funds: Construction Fund and Capitalized Interest Fund

Suitability - Any investment eligible in the Investment Policy is suitable for investment of Type III Funds. Bond document constraints and insurance company restrictions may create bond issue-specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type III Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type III Funds may not exceed the final draw date for capitalized interest payments or estimated construction draws, or three years, whichever is shorter.

Liquidity - Type III Funds have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type III Funds that do not have an arbitrage yield, attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction and Capitalized Interest Fund portfolio will be the minimum yield objective for performance. For Type III Funds that have an arbitrage yield, achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective.

d. Type IV Funds: Debt Service Reserve Fund

Suitability - Any investment eligible in the Investment Policy is suitable for the Type IV Funds. Bond document constraints and bond insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the Type IV Fund's portfolio maturities should be managed to reduce

the investment's market risk if the Commission's bonds are called and the reserve fund liquidated. In no case shall any investment maturity exceed the lesser of final maturity of the bond issue or 20 years. Annual mark-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type IV Funds have no anticipated expenditures of principal. The funds are deposited to provide annual debt service payment protection to the Commission's bondholders. The funds are "returned" to the Commission at the final debt service payment or earlier if bonds are defeased or redeemed. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

e. Type V Funds: Rebate Account

Suitability - Any investment eligible in the Investment Policy, except guaranteed investment contracts and forward purchase contracts, is suitable for Type V Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type V Fund's portfolio to match rebate payment date requirements as prescribed by federal tax law. The maximum allowable maturity of investments for Type V Funds may not exceed the date on which rebate requirements are due.

Liquidity - Type V Funds have a predictable draw schedule and will not be expended prior to the rebate payment date for each applicable series of obligations. Therefore, investments for this fund type do not need a high level of liquidity.

Marketability - Securities with secondary markets less active and efficient are acceptable for Type V Funds.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type V Funds. At no time shall investment maturities exceed the rebate payment date in an attempt to boost yield.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Rebate Account Fund portfolio will be the benchmark for performance.